Wealth Management
Weekly Market Update

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Market Update

Stocks posted mixed returns last week, with strong performance in the US as the NASDAQ 100 set new record highs, while UK and Japanese stocks closed down -0.9% and -1.8% in Sterling terms respectively. Emerging Market stocks performed well, gaining +2.4% for the week. Technology, Telecoms and Consumer Discretionary stocks performed well, while Oil lagged as uncertainty regarding the speed of the economic recovery remains and crude oil prices fell below $40 a barrel. The bond market also painted a negative outlook for the economy as yields fell; the UK 10Y Gilt yield was down -3.3bps for the period, while the US 10Y Treasury yield fell -2.5bps. Sterling performed well versus other major currencies on hopes that a no-deal Brexit will be avoided after EU diplomats had confirmed the UK and EU had sketched out a "landing zone" for a Free Trade Agreement. The Pound was up +1.1% versus the US Dollar and +0.6% versus the Euro. In commodities, Gold was up +1.3% in US dollar terms, while Oil prices closed the week down -0.2%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.9%	▲ +0.5%	▼ -0.1%	▲ +0.2%	▲ +2.4%	▼ -1.8%	▲ +0.4%	▲ +1.1%

all returns in GBP to Friday close

Macro News

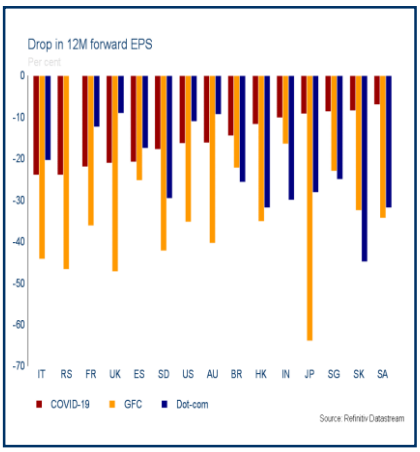
- Chancellor Rishi Sunak passed new measures to speed up the recovery of the UK economy from the coronavirus lockdown. The "eat out to help out" discount has been introduced, in which diners will get a 50% discount off their restaurant bill during August and VAT on hospitality and tourism will drop to 5%.
- PMI data surprised to the upside for the month of June, with composite figures just shy of 50. The US Composite PMI posted a figure of 47.9 in June, up from 37.0 in May, while the Eurozone Services PMI continued to recover ground from April's low, rising to 48.3.
- Two of the UK's biggest high street retailers, John Lewis and Boots, announced 5,300 job cuts last week, with store closures expected as profits fade.

The Week Ahead

- US inflation YoY for June will be released Tuesday; this will provide a measure of the magnitude of the COVID-19 demand shock and a signal for future monetary policy.

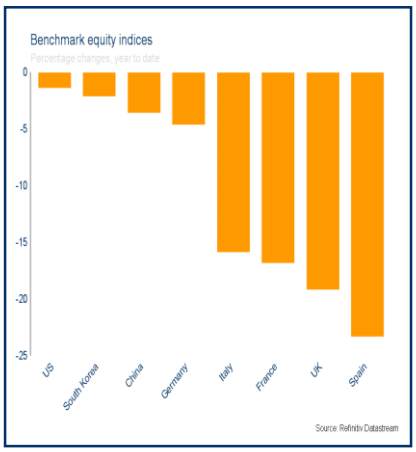
Week in Charts

Fig 1: EPS projections



EPS projection reductions have not been as steep as during the GFC. However for many countries, including the UK, the reductions have been greater than during the Dot-com crash, which was focused on fewer sectors.

Fig 2: Stock market divergence



Simply writing about 'global stock markets' masks a huge divergence in performance between different sectors and geographies. In the first half of the year, a UK based investor holding the technology rich US market would have returned over 3% compared to minus 17% provided by the FTSE All-Share with its exposure to the Energy and Financial sectors and the uncertainty over Brexit arising once more.

View From the Desk

Stocks were mixed last week, due to a confluence of the Fed's slowing asset purchases since early June and a resurgent COVID-19 narrative. We have often noted how quantitative easing was driving this market instead of traditional equity and bond valuation fundamentals. It stands to reason then, now that the Fed appears to be done with this particular round of asset purchases - that is not to say we'd be surprised if there were more of them - that investors are once again turning their attention to the Coronavirus, only to find that the threat is far from removed. In fact, the world is experiencing a second wave, much sooner than October which is what strategists and policy makers had originally anticipated. We think markets, investors and CEOs have yet to come to terms with the very real possibility that this new, highly infective, unpredictable and lethal respiratory virus might be with us well into the next year before scientific solutions are well established. Unchecked, COVID-19 could present a threat to globalisation, trade, international investments and diplomacy in a significantly more serious way than the political antics of past few years. Not only would this mean a deep "U-shaped" recovery, but it would also probably mean radical changes in consumer behaviour and supply chains, long-term restrictions on travel and thus further pressures on trade worldwide, ultimately leading to a poorer world and a serious re-rating of risk assets. Everyone has little choice but to follow the Federal Reserve right now if they are looking for any return on their portfolio, but clients need to make sure their strategists and asset allocators are on permanent alert for that potential breaking point when fundamental realities may overwhelm the potency of cheap cash for financial markets.

David Baker, CIO

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